THE ROLE OF THE INSPECTORATE IN FRAUD PREVENTION IN VILLAGE FINANCIAL MANAGEMENT (CASE STUDY ON THE REGIONAL INSPECTORATE OF ARU ISLANDS REGENCY)

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Abstract

This study aims to examine the role of the Regional Inspectorate of the Aru Islands Regency in preventing fraud in village financial management. Additionally, the study seeks to identify the challenges faced by the Inspectorate in implementing fraud prevention, as well as the factors that contribute to the occurrence of fraud in village financial management. The method used is descriptive qualitative, with data collected through in-depth interviews and observations. The results show that the role of the Regional Inspectorate of the Aru Islands Regency in preventing fraud is carried out through supervisory and guidance functions. The study found several internal and external factors that hinder the optimal implementation of supervision and guidance, which in turn affect the effectiveness of fraud prevention. It also identified factors that contribute to the vulnerability to fraud in village financial management, including opportunity, pressure, lack of competence, and low levels of education.

Keywords: Inspectorate, Fraud Prevention, Village Financial Management

INTRODUCTION

Transparency and accountability in public financial management are key elements in realizing good governance. Accountable regional financial management is an important factor in supporting development and public services, especially at the village level. For this reason, an effective supervision mechanism is needed so that the implementation of the regional budget runs in accordance with applicable regulations.

Based on Government Regulation No. 60 of 2014, village funds are funds sourced from the State Expenditure Budget (APBN) intended for villages which are transferred through the district/city Regional Expenditure Budget (APBD) and used to finance the implementation of government, implementation, development, community development, and community empowerment.

The distribution of state budget funds to village governments has been worth trillions of rupiah since 2015. The Ministry of Finance (MoF) has disbursed village funds of Rp 609.9 trillion during 2015-2024. Based on data shared by the Directorate General of Fiscal Balance (DJPK), village funds have increased since they were first allocated in 2015.

As for 2015, the village funds allocated by the government amounted to Rp 20.76 trillion and then increased to Rp 71 trillion in 2024.

The increase in the amount of village funds disbursed every year shows the government's seriousness in developing Indonesia, besides that it also has a positive impact on village development, but on the other hand it has a negative impact such as the misuse of village funds. Based on data from the Corruption Eradication Commission (KPK), from 2015 to 2024, there were more than 900 corruption cases related to the Village Fund that were revealed, with the value of state losses reaching more than Rp 1.5 trillion.

According to *researchers from Indonesia Corruption Watch* (ICW), following findings about the rampant corruption cases carried out, involving officials from village officials. Based on ICW data, from 2015 to 2020, there were 676 defendants in corruption cases from village officials. From this data, it shows that corruption practices in village financial management are still very high and are rampant by village officials.

Based on research conducted by Utami el al. (2019) and Rahmawati el al. (2020), which linked the irregularities or *fraud* of village funds with the pressure faced by village officials, there are several cases *of fraud* in the management of village funds carried out by village heads or village officials in several regions in Indonesia. In addition to several regions in Indonesia, *cases of fraud* in village financial management also occur in the Aru Islands Regency area. Based on the data obtained, there are several cases of *fraud* that occurred in the management of village funds that occurred in the Aru Islands Regency Area.

These cases show that *fraud* is still vulnerable to occur even now, this reflects that internal supervision is still ineffective. The rise of *fraud* in village financial management that occurs in the village government environment is increasingly cornering the role of the Internal Auditor. This statement is strengthened by the results of research from Furqani Dan Hafidhah (2015); Gamar and Djamhuri (2015); Darori (2017); Moonti et al (2018).

Basically, the Regional Inspectorate is a state administrative institution as a function of internal government supervision has not been maximized in preventing and detecting *fraud* in the village government environment in terms of financial management, which should be the relationship between the inspectorate as the government's Internal Auditor and *fraud prevention* is very strong.

This research replicates the research from Tasdikul Hairul (2022) with the title Analysis of the Role of the Inspectorate in Prevention *Fraud* On Village Financial Management (Study at the Regional Inspectorate of Kerinci Regency). The difference between this study and previous research can be seen in the phenomena that have been described in the background, location and object that are different from the previous research.

This research uses agency theory. The agency theory is used because in the case of *fraud* there is a heavy relationship between the principal and the agent with different interests. In a company, the principal is represented by the shareholders, while the agent is represented by the manager. In this study, the researcher placed the inspectorate as the principal as the supervising party while the agents were all villages in the Aru Islands Regency Area.

RESEARCH METHODS

This study uses a descriptive qualitative approach that aims to describe in depth the role of the Inspectorate in fraud prevention in village financial management. This approach was chosen so that the researcher can gain a comprehensive understanding through direct observation and in-depth interviews with relevant informants.

The research was carried out at the Aru Islands Regency Regional Inspectorate Office. The technique of determining informants in this study uses the Purposive Sampling technique. The informants in this study are trusted people (Key Persons) and interested parties and have a direct role in supervising village financial management.

The data sources in this study are primary data and secondary data. Primary data were obtained through direct observation and semi-structured interviews. Observations are used to record real conditions in the field, while interviews are conducted to dig deeper information from the sources. Meanwhile, secondary data is obtained from official documents, including relevant laws and regulations and can support this research data.

The data analysis technique uses the Miles and Huberman model, which includes three stages: data reduction, which is filtering and simplifying important data; data presentation, which is organizing data in the form of descriptions or charts so that they are easy to understand; as well as drawing conclusions and verification, which is formulating findings based on the data that has been analyzed.

RESULTS AND DISCUSSION

1. The Role of the Inspectorate in Fraud Prevention in Village Financial Management

a. Construction and supervision functions

Based on the results of the interview, it is known that the Regional Inspectorate of Aru Islands Regency has two main tasks, namely insurance (supervision) and consulting (coaching). The Inspectorate stated that as one of the elements of supervision of the implementation of local government, the inspectorate has the main task, namely supervising government affairs in the region and implementing guidance on the implementation of village government. This is in accordance with Regent Regulation No. 52 of 2017 concerning the elaboration of the duties and functions of the Regional Inspectorate of Aru Islands Regency.

Furthermore, based on the results of interviews with informants, it is known that the Aru Islands Regency Regional Inspectorate has carried out its role in preventing *fraud* in village financial management through the Coaching function.

Here is an excerpt of the interview:

"Then for fraud prevention, we have a coaching function. So indeed, if in Aru the village heads have a weak administrative system and the level of education is also low, so it can be a potential for fraud, so that is where our coaching function is to prevent fraud or mistakes

from happening." (N 4).

b. Regular Inspections and Specific Purpose Inspections

The Aru Islands Regency Regional Inspectorate carries out inspection process activities to carry out its role as a Government Internal Supervisory Apparatus. This is based on Permendagri No. 73 of 2020 concerning Supervision of Village Financial Management. Inspections carried out by inspectorates are divided into two, namely regular inspections and inspections for certain purposes.

The following is an excerpt of the interview with the informant.

"We go down to conduct regular supervision, which in the regular supervision we audit everything referred to as village financial audits" (N3)

In addition to conducting regular inspections, the Regional Inspectorate of Aru Islands Regency also conducts inspections or audits for certain purposes, certain objective inspections carried out in villages carried out by the inspectorate based on the annual supervision work program (PKPT) that has been prepared and designed in advance.

This is in accordance with the statement of the source.

"If there are complaints and reports from the community related to indications of fraud in the village, we will go down to conduct a certain purpose audit" (N6)

"If there are people who report to the inspectorate related to the village that is indicated to have committed fraud, then we will go down to the village to conduct a certain purpose audit" (N7)

c. Follow-up of the examination results.

The follow-up of the audit results is carried out with the aim of seeing the suitability and level of completion carried out by the audit object from the findings and recommendations of the audit results. The process of follow-up activities for the results of the audit will be carried out after the audit report is issued. If at the time of conducting the audit there is a discrepancy in the village financial management, the inspectorate will provide recommendations for improvement. However, if there is a village that *commits fraud* , it will be followed up together with the Law Enforcement Apparatus (APH), if it has reached this stage, there will be no more recommendations for improvement.

d. Socialization

Based on the results of interviews with informants, it is known that the Regional Inspectorate of Aru Islands Regency also conducts socialization as a form of fraud prevention in village financial management. The socialization activities carried out aim to increase the understanding of village officials regarding the rules and principles of correct financial governance, so that they can avoid mistakes that have the potential to become *fraudulent* acts.

The following is an excerpt of the interview with the source.

"We provide socialization to village officials and also the community and it must be there every year." (N3)

e. Cooperation with other parties

In supervising and preventing *fraud* in village financial management, the regional inspectorate collaborates with several parties. This collaboration is important to increase the effectiveness of supervision and early detection of potential *fraud*. From the results of interviews with the sources, it is known that in supervising and preventing *fraud* in village financial management in the Aru Islands Regency Region, the regional inspectorate collaborates with the community and village empowerment office (DPMD) in terms of requesting APBDes data and accountability reports. In addition, the inspectorate also cooperates with law enforcement officials, namely the police and the prosecutor's office, if there are complaints of fraud in village financial management.
The following is an excerpt of the interview with the informant.
"If it is just us for supervision, unless there is an incoming report related to fraud in the village, then we cooperate with law enforcement such as the prosecutor's office and the police." (N4)
"For village financial supervision, we from the inspectorate ourselves do it. But indirectly, we also cooperate with the community and village empowerment office (DPMD) to request village financial data if it is difficult for the village to be asked for data" (N7)

f. Community Involvement in Village Financial Supervision

Community involvement in village financial supervision is an important element in creating transparency and accountability in village governance. The community can act as a direct supervisor of the use of the village budget sourced from public funds.
The following is the statement from the informant.
"In the audit, there must be to involve the community, for example, if there is assistance to the community, the inspectorate will conduct a sampling test on the community to ensure that the village has provided according to the budget or not. And we have samples and working papers available" (N1&2)

2. Obstacles of the Inspectorate in Preventing *Fraud* in Village Financial Management

a. Internal Constraints

Limited Human Resources (HR)

It is known that the obstacle factor that causes the inspectorate to not be optimal in carrying out supervision in preventing *fraud* in village financial management is the limited number of auditors owned by the Aru Islands Regency Regional Inspectorate. The lack of auditors in the inspectorate is not proportional to the number of villages that must be supervised. The limited number of auditors causes their performance in preventing *fraud* in village financial management has not been maximized.

This is in accordance with the results of interviews with the following informants:

"Incidentally, we at this inspectorate have auditors that are still very lacking, our auditors are only 12 people, while for the examination of reports in the past few years, usually one auditor checks for 3 years has a report, so sometimes if you have checked a lot, the level of errors or mistakes is also getting bigger. It would be better if 1 auditor checked for 1 year and has a report to be more thorough." (N7)

Budget constraints

The Inspectorate has a wide scope of supervision and requires a budget that can support the activities of the supervision process. When carrying out the supervisory function in village financial management, the Aru Islands Regency Inspectorate experienced obstacles in terms of budget. Moreover, the Aru Islands Regency area is an archipelago area whose villages are located quite far and requires more budget to reach these villages.

The following is an excerpt of an interview with an informant who supports this statement.

"Regarding the budget, we happen to have our own shoe to go to the villages, so we don't need to rent a shoe anymore. But we have to spend a budget to buy fuel and it requires a large enough budget because the villages to be visited are far away. Sometimes if there is a report that comes in but the budget has not been disbursed, we cannot go down immediately for an inspection, we have to wait for the budget to be disbursed first before it can go down." (N3-N7)

b. External Constraints

Constraints of limited human resources

The limitations of the competence and educational background of village apparatus are one of the obstacles in itself of the Aru Islands Regency Inspectorate in supervising village financial management. Fikri et al. (2015) stated that the competence of officials with a lack of understanding related to unprofessional accounting can be a potential for fraud.

The following are the results of the interview with the speakers.

"Because for village heads and village officials, as a rule, the minimum education must be junior high school, so if there is a village head who graduated from junior high school or high school, they have the ability to prepare accountability reports, it can be said that they are still lacking, so sometimes it is late in entering reports, especially usually they ask for help from village operators." (N7)

Communication Limitations

The obstacle that is often faced by the Regional Inspectorate of Aru Islands Regency when conducting inspections related to village financial management is the difficulty of communicating with village officials to ask for information or confirmation if there are findings in the audit activities.

Data Delay Constraints

In an effort to prevent *fraud* in village financial management, the inspectorate often faces various data-related obstacles. One of the main obstacles is access to data that is slow to be entered by the village government. In addition, the inaccuracy and unup-to-date data submitted by the village government.

Constraints of Village Location

Aru Islands Regency is an archipelago consisting of 10 sub-districts and 117 villages. The challenges of the inspectorate in preventing *fraud* in villages are becoming increasingly complex due to the geographical location that requires travel between villages to be carried out by crossing the sea. Access to these villages is highly dependent on weather conditions.

The following is an excerpt from the informant's interview that supports the statement:

"Aru is an archipelago, so for us to get to one certain village except for wangel and durjela, we have to go by sea. Meanwhile, if the wind is strong and the waves are big, we cannot cross to go to these villages. So the weather factor and the remote location affect and become a challenge for us." (N7)

3. Factors Causing Fraud in Village Financial Management

a. Opportunity

Fraud in village financial management often occurs because of the opportunity factor, they feel that if there is an opportunity and intention for *fraudulent* acts can occur in village financial management, besides that they also feel that they are not supervised because of the weak internal control system in the village government.
The following is an excerpt from the informant's interview that supports the above statement.
"Occasionally, usually they commit fraud because of an opportunity, because they feel less supervised so they commit fraud." (N3, N4)

b. Pressure

Vousinas (2019) said that there is pressure to take action when cheating is caused by financial needs, urgent economic needs from family, and others. The above statement is in accordance with the results of interviews conducted with informants where the factor causing *fraud* in village financial management is due to pressure from the village head for personal needs.
The following are the results of the interviews obtained from the sources:
"Sometimes people with greater needs need other sources of income outside of their livelihood, right, so sometimes there are village funds that they use for personal interests, so that's one of the reasons people commit fraud" (N5, N7)

c. Lack of Competence and Education Level

The human resource (HR) factor has a very large role in influencing the occurrence of *fraud* in village financial management. Many cases of irregularities in the village occur because village officials who manage the budget do not have adequate competence in the fields of financial administration, accounting, or governance.
The following is an excerpt of an interview with the informant who supported his statement:
"We often find that many villages whose village heads have a lack of educational background, some are high school and some are even only junior high schools, that makes

them have a limited understanding of the management and preparation of village financial reports so mistakes are prone to occur because they are ignorant in managing the village's finances. (N6)

d. Lack of oversight from the authorities

Weak supervision from agencies and authorities opens a gap for village officials to commit fraud. The lack of frequency of inspections, limited supervisory resources, or non-optimal follow-up of audit results makes potential *fraud* not detected early.
This is in accordance with the informant's statement.
"So that's why it is very necessary to supervise the management of village finances. We at this inspectorate have the main function as supervisors, so we carry out regular supervision to minimize the level of fraud that occurs" (N1&2)

e. Lack of transparency and accountability

Low transparency in the reporting and use of village budgets, as well as lack of community involvement in supervising village financial management, allows for data manipulation, budget inflation, or fictitious expenditures. Weak accountability makes perpetrators feel irresponsible for the public funds they manage. The absence of financial statements that are easily accessible to the public increases the potential for systemic *fraud*.
The following is an excerpt of the interview with the informant.
"Transparency or openness is important in village financial management. So if there is a village whose financial management is covered there, there must be fraud. (N3-5)

f. Lack of Sanctions or Consequences for Fraud Perpetrators

Indecisiveness in providing legal and administrative sanctions against perpetrators of financial irregularities has a weak deterrent effect. If the perpetrator is not punished appropriately, this will encourage the recurrence of fraudulent practices, both by the same individual and by other officials who consider the risk of fraud to be very small. Weak law enforcement exacerbates the permissive culture against corruption.
The following is the statement of the informant who supports the above statement.
"If the sanctions given are less, then it is certain that the fraud perpetrator does not feel a deterrent and will definitely repeat the act of fraud again. Because they will think that the sanctions given are not heavy. So that's why the sanctions given must be able to provide them with a deterrent effect so that they don't think about repeating fraudulent acts." (N4)

This finding expands the discussion from previous research by adding social and institutional dimensions as the cause of irregularities in village financial management. Although the topics studied are similar to previous research, there are differences in the theoretical approaches underlying the research.

Previous research by Tasdikul Hairul (2022) used *the Fraud* Hexagon theory which emphasizes six factors that cause *fraud*. Meanwhile, this study uses Agency Theory, which highlights the relationship between principals (in this case inspectorates) and agents (village governments).

Based on the agency theory, it was found that *fraud* occurred due to weak supervision (principal control), lack of transparency from agents, and the absence of strict sanctions that could prevent irregularities. Therefore, this study provides a new perspective by seeing *fraud* as a form of failure in the relationship between the trustee and the enforcer, not just as individual behavior triggered by internal factors.

Thus, although the main objects and findings are in line with the previous research, the theoretical approaches used in this study make different theoretical contributions and enrich the study of *fraud prevention* in village financial management.

CONCLUSION

Based on the results of the research and discussion, it can be concluded that the Aru Islands Regency Regional Inspectorate has carried out its role in preventing *fraud* in village financial management through the function of supervision and coaching. The Inspectorate performs a supervisory and coaching role through several activities, namely conducting regular and special inspections, carrying out follow-up processes from the results of the inspection, and conducting socialization related to village financial management. In addition, the Inspectorate also collaborates with other parties and involves the community in supervising village financial management.

From the results of the research, it was found that various obstacles faced by the inspectorate in preventing *fraud* in village financial management both internally and externally. The results of the study found several factors that cause *fraud* in village financial management, including opportunities, pressure, and lack of competence and education level from village officials. In addition, this study also found that there are factors that cause *fraud* caused by lack of supervision from the authorities, lack of transparency and accountability in village financial management, and lack of sanctions and consequences for village officials.

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